

# Investor Update



## State of California Upcoming Bond Issues

*April 15, 2004*

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# Purpose of Today's Call

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- ◆ Provide an update on the State's implementation of its deficit recovery financing program – as now encompassed in the Economic Recovery Bonds
- ◆ Identify key events that have occurred and key dates that are forthcoming
- ◆ Describe the general security and structure of the Economic Recovery Bonds
- ◆ Show how issuance of the Economic Recovery Bonds will dovetail with repayment at maturity of the State's 2003 Revenue Anticipation Warrants (RAWs) and Revenue Anticipation Notes (RANs)
- ◆ Provide an update on the State's ongoing General Obligation Bond program – including an upcoming sale this month

# Background on Deficit Recovery Plans

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- ◆ Approximately \$11 billion in RAWs and \$3 billion in RANs were issued in 2003 to manage the State's cash flow requirements for Fiscal Year 2003-04, pending issuance of long-term bonds; these notes mature on June 16 and June 23, 2004, respectively
- ◆ Initial plans for a \$10.7 billion deficit bond enacted as part of the 2003-04 State Budget were stalled by contested validation proceedings
- ◆ In December 2003, the State enacted legislation to place before voters a \$15 billion General Obligation Bond to retire the Accumulated State Budget Deficit, to be repaid by a new quarter-cent state sales tax dedicated solely to the Bonds (Proposition 57)
- ◆ A companion Constitutional Amendment also was placed on the ballot to permit these bonds to be issued for deficit retirement, to require future balanced budgets, and to establish a new "rainy day fund" (Proposition 58)
- ◆ Both measures were approved by voters on March 2, 2004, and the Secretary of State certified the election results on April 10, 2004

# Key Dates Regarding Economic Recovery Bonds

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March 2	Voters approved Propositions 57 and 58
April 10	Secretary of State certified election results
April 20	Economic Recovery Bond Finance Committee will meet to approve Bonds
May 4	Pricing first series of Economic Recovery Bonds (closing within one week)
May 24 – June 15	Price and close additional series of Economic Recovery Bonds
June 16 & 23	Maturity dates of RAWs and RANs, respectively

# Economic Recovery Bonds (“ERBs”) Overview

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- ◆ The Bond Act provides an irrevocable pledge of revenues from the new quarter-cent state sales tax, which goes into effect July 1, 2004
- ◆ All collections must be deposited into the Fiscal Recovery Fund, and are continuously appropriated for bond-related payments
- ◆ The Bond Act includes the State’s pledge not to reduce the quarter-cent sales tax rate securing the Bonds
- ◆ Monies are held in trust entirely separate from the General Fund; not a “borrowable” resource
- ◆ California’s strong history of growing taxable sales and a diverse economic base make sales tax revenues an exceptional repayment source
- ◆ The Bonds also have a pledge of the State’s full faith and credit, but there is no expectation of any reliance on the General Fund
- ◆ In the matter of *City of Cerritos et. al. vs. State Board of Equalization*, the Attorney General and Bond Counsel have advised that the remedies sought in this petition would not prevent delivery of their approving opinions for the issuance of the Bonds

# Preliminary Financing Plan

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- ◆ The ERBs represent California's first bonds secured by a statewide sales tax
  - It is a one-time program capped at \$15 billion
  - The Governor's proposed FY 2004-05 budget includes \$12.3 billion of ERBs
- ◆ The anticipated bond structure will include a variety of debt instruments
  - Fixed-rate tax-exempt debt (insured and uninsured)
  - Variable rate tax-exempt debt
    - Variable rate demand bonds (letters of credit)
    - Variable rate demand bonds (insured with liquidity)
    - Auction rate (insured)
- ◆ The Bonds are expected to have a maximum nominal maturity of 18 years with slightly increasing debt service over time
- ◆ Potential redemptions from available revenues can be expected to reduce the actual final maturity under a variety of circumstances (products and call features will be discussed closer to pricing)

# ERBs Structured Using Conservative Assumptions

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- ◆ The 18-year maturity is the result of using very conservative assumptions to assure that the quarter-cent pledged sales tax will support the bonds under all circumstances
  - Bonds will be scheduled to mature through 2022, tracking an assumed sales tax compound annual growth rate of only 2%, a conservative assumption aimed at securing high-quality ratings
- ◆ Other scenarios result in significantly faster retirement, consistent with legislative intent
  - For instance, if sales taxes grow at the historical annual average of approximately 5% and if \$5 billion is transferred from the new “rainy day fund” to retire ERBs, as specified by Proposition 58, the ERBs will be fully retired in 2013, 9 ½ years after issuance

# \$1.75 Billion General Obligation Bonds

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- ◆ Structured for both retail and institutional investors
- ◆ A range of maturities will be offered during the retail order period
- ◆ Standard ten-year call protection expected
- ◆ Insured bonds expected to be offered
- ◆ Structure is subject to adjustment based on market conditions
- ◆ State's GO ratings have stabilized
- ◆ \$1.75 billion in fixed-rate GO Bonds to price April 22 and close April 29